



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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WENDY L. WATANABE
AUDITOR-CONTROLLER

April 4, 2013

TO: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

A handwritten signature in blue ink, reading "Wendy L. Watanabe", is written over the printed name and title.

SUBJECT: **BIENESTAR HUMAN SERVICES, INC. – A DEPARTMENT OF PUBLIC
HEALTH HIV/AIDS PREVENTION AND CARE SERVICES PROVIDER –
CONTRACT COMPLIANCE REVIEW**

We completed a review of Bienestar Human Services, Inc. (Bienestar or Agency), which covered a sample of transactions from March 2010 through June 2012. The County Department of Public Health (DPH) Division of HIV and STD Programs (DHSP) contracts with Bienestar, a non-profit organization, to provide case management, mental health, health education and risk reduction, and HIV/AIDS testing services.

Our review was intended to determine whether Bienestar provided services to eligible clients, and spent Program funds in accordance with their County contract. We also evaluated the Agency's accounting records, internal controls, and compliance with the contract and other applicable guidelines.

At the time of our review, Bienestar had seven cost-reimbursement contracts with DHSP. DHSP paid Bienestar \$2,002,368 from March 1, 2010 through June 30, 2012. The Agency provides services to clients in the First, Second, Third, and Fourth Supervisorial Districts.

Results of Review

Bienestar recorded and deposited DHSP payments timely, provided services to eligible individuals, and maintained the required personnel records. In addition, Bienestar's Cost Reports reconciled to their accounting records for the periods ended December

2011, February 2012, and March 2012. However, Bienestar did not always comply with all requirements of the County contract. For example, Bienestar:

- Did not develop a written Cost Allocation Plan as required by the County contract. In addition, they did not allocate some shared expenditures, such as insurance and telephone costs, using an approved methodology. Bienestar used an approved methodology to allocate other costs, such as utilities, maintenance, and rent. However, the Agency did not provide documentation to support the percentages used to allocate shared costs to the DHSP Programs. Questioned costs totaled \$18,092. Similar findings were noted during our prior monitoring review.

Bienestar's attached response indicates that they have modified their Cost Allocation Plan and will submit the new Plan to DHSP for approval. However, Bienestar disagreed with the questioned costs. DHSP indicated that they will work with the Agency to resolve this issue.

- Did not resolve ten reconciling items on their July 2012 operating and payroll bank accounts covering the period January 2010 to March 2011. One of the ten reconciling items, totaling \$2,370, related to the DHSP Program.

Bienestar's attached response indicates that they will repay the appropriate programs for the reconciling items and ensure their bank reconciliation policy is followed.

- Did not obtain DHSP's approval for their client fee schedule.

Bienestar's attached response indicates that they will submit a revised client fee schedule to DHSP.

- Did not require the preparer or the reviewer to sign the bank reconciliations and require two authorized signatures on all checks.

Bienestar's attached response indicates that both their Fiscal Director and Deputy Executive Director will review, date, and initial the bank reconciliations, and obtain two signatures on all checks as required.

- Did not pay five hourly employees the correct amount for the hours recorded on their timecards and four timecards were not signed by employees.

Bienestar's attached response indicates that they have implemented systematic steps to ensure this does not happen in the future.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with Bienestar and DHSP. In their attached response, Bienestar agreed to repay DPH \$2,370. However, the Agency does not agree that the remaining \$18,092 in questioned costs was incorrectly allocated/supported. DHSP agrees with our findings, and will work with Bienestar to resolve the questioned costs.

We thank Bienestar management for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:AB:DC:EB

Attachment

c: William T Fujioka, Chief Executive Officer
Jonathan E. Fielding, M.D., M.P.H., Director, Department of Public Health
Bienestar Human Services, Inc.
Rita Gonzales, Chairperson, Board of Directors
Oscar De La O, President
Public Information Office
Audit Committee

**BIENESTAR HUMAN SERVICES, INC.
HIV/AIDS PREVENTION AND CARE SERVICES
MARCH 2010 TO JUNE 2012**

ELIGIBILITY

Objective

Determine whether Bienestar Human Services, Inc. (Bienestar or Agency) provided services to clients who met the Department of Public Health (DPH) Division of HIV and STD Programs (DHSP) eligibility requirements. In addition, determine whether the Agency collected fees from eligible clients.

Verification

We reviewed the case files for ten (4%) of the 245 clients who received services between March 2012 and August 2012 for documentation of their eligibility for DHSP services. In addition, for the cases we reviewed, we verified whether the Agency collected fees from clients in accordance with the Agency's approved client fee schedule.

Results

Bienestar had documentation to support all ten clients' eligibility for DHSP services. However, Bienestar did not obtain approval from DHSP for their client fee schedule as required by Paragraph 10 of the Additional Provisions of the County contract. A similar finding was also noted during our prior monitoring review.

Recommendation

- 1. Bienestar management obtain DHSP's approval of their client fee schedule.**

CASH/REVENUE

Objective

Determine whether Bienestar recorded revenue in the Agency's financial records properly, deposited cash receipts into their bank account timely, and that bank account reconciliations were reviewed and approved by Agency management.

Verification

We interviewed Bienestar's personnel, and reviewed their financial records and July 2012 bank reconciliations.

Results

Bienestar recorded revenue in their financial records properly and deposited DHSP payments into the Agency's bank account timely. However, Bienestar did not always maintain adequate internal controls. Specifically, Bienestar did not:

- Resolve ten reconciling items, totaling \$7,273, on their July 2012 operating and payroll bank accounts that were from January 2010 to March 2011. One reconciling item, totaling \$2,370, related to the DHSP Program. A similar finding was also noted during our prior monitoring review.
- Require the preparer and the reviewer to sign the bank reconciliations, as required.
- Require two authorized signatures on all checks, as required by the Agency's Accounting Policies and Procedures Manual. In one instance, the check was signed by one authorized signer, who was also the payee.

Recommendations**Bienestar management:**

2. Repay DPH \$2,370 for the unpaid expenditure.
3. Ensure bank reconciling items are resolved timely.
4. Ensure the bank reconciliations are signed by the preparer and the reviewer.
5. Ensure two authorized signatures are required on all checks.

COST ALLOCATION PLAN**Objective**

Determine whether the Agency prepared its Cost Allocation Plan (Plan) in compliance with the County contract, and used the Plan to allocate shared costs appropriately.

Verification

We reviewed the Agency's Plan and a sample of shared expenditures from August 2011 to June 2012.

Results

Bienestar did not develop a written Cost Allocation Plan as required by Paragraph 11.B.(3) of the Additional Provisions of the County contract. In addition, the Agency did

not follow an appropriate methodology to allocate shared expenditures, such as insurance and telephone costs. Bienestar allocated these costs based on budgeted positions, not actual positions.

Bienestar appropriately used square footage to allocate other costs, such as utilities, maintenance, and rent. However, the Agency did not provide documentation, such as the building floor plan, to support the actual square footage used by the DHSP Programs. The questioned costs totaled \$18,092. Similar findings were noted during our prior monitoring review.

Recommendations

Bienestar management:

- 6. Repay DPH \$18,092 for unsupported allocations, or reallocate the shared costs based on an approved allocation methodology, and repay DPH for any excess amounts charged to the DHSP Programs.**
- 7. Develop a written Cost Allocation Plan in compliance with the County contract and allocate shared costs based on actual expenditures and/or data.**

EXPENDITURES

Objective

Determine whether expenditures charged to the DHSP Programs were allowable under the County contracts, properly documented, and accurately billed.

Verification

We interviewed Agency personnel, reviewed financial records and documentation for 15 non-payroll expenditure transactions, totaling \$7,959 charged to the DHSP Programs from March 2011 to June 2012.

Results

Bienestar maintained adequate documentation to support the non-payroll expenditures charged to the DHSP Programs.

Recommendation

None.

PAYROLL AND PERSONNEL**Objective**

Determine whether payroll expenditures were appropriately charged to the DHSP Programs. In addition, determine whether personnel files are maintained as required.

Verification

We traced payroll expenditures, totaling 21,768, for ten employees that worked on the DHSP Programs for June 2012, to the Agency's payroll records and time reports. We also reviewed the ten employees' personnel files.

Results

Bienestar maintained personnel files as required by their County contract. However, Bienestar charged a portion of an employee's time in June 2012 to a DHSP Program, even though the employee's timecard documented that the employee did not work on the DHSP Program. Subsequent to our review, Bienestar provided a signed affidavit from the employee and a revised timecard certifying that the employee actually worked on the DHSP Program in June 2012.

In addition, Bienestar did not pay five hourly employees the correct amount for the hours recorded on their timecards and four employees did not sign their timecards. Total questioned cost was immaterial. However, Bienestar should ensure that only actual hours worked are charged to the DHSP Programs, payroll is accurately calculated, and timecards are signed by employees.

Recommendations**Bienestar management:**

- 8. Ensure that only actual hours worked are charged to DHSP Programs.**
- 9. Ensure that payroll is accurately calculated.**
- 10. Ensure that the timecards are signed by employees.**

COST REPORTS**Objective**

Determine whether the Agency's Cost Reports reconciled to the accounting records.

Verification

We traced the Agency's Cost Reports submitted to DPH for the period ended December 2011, February 2012, and March 2012, to their accounting records.

Results

Bienestar's Cost Reports reconciled to their accounting records.

Recommendation

None.



BIENESTAR HUMAN SERVICES, INC.

February 1, 2013

Administrative Offices:

5326 East Beverly Blvd
Los Angeles, CA 90022
(323) 727-7896
Fax: (323) 727-0284

Community Service Centers:

Hollywood Center
4955 Sunset Blvd
Los Angeles, CA 90027
(323) 660-9680
Fax: (323) 660-6279

East Los Angeles Center
5326 E. Beverly Blvd.
Los Angeles, CA 90022
(323) 727-7896
Fax: (323) 727-7985

San Fernando Valley Center
8134 Van Nuys Blvd, Suite 200
Panorama City, CA 91402
(818) 908-3820
Fax: (818) 908-3844

Pomona Center
180 E. Mission Blvd.
Pomona, CA 91766
(909) 397-7660
Fax: (909) 397-7661

Long Beach Center
525 East 7th Street
Long Beach, CA 90813
(562) 628-9687
Fax: (562) 983-6457

South Los Angeles Center
130 W. Manchester Ave.
Los Angeles CA 90003
(323) 752 3100
Fax: (323) 752 3420

AHF/Bienestar El Monte Clinic
3131 Santa Anita Ave #109
El Monte, CA 91733
(626) 444-9453

Coachella Center
53-990 Enterprise Way, # 6B
Coachella, CA 92236
(760) 398-3166
Fax: (760) 398-3009

Wendy L. Watanabe, Auditor-Controller
Department of Auditor-Controller
Countywide Contract Monitoring Division
350 S. Figueroa Street, 8th Floor
Los Angeles, CA 90071
Attention: Iscah Wang

**SUBJECT: BIENESTAR HUMAN SERVICES, INC. – A DEPARTMENT OF
PUBLIC HEALTH HIV/AIDS CARE AND PREVENTION SERVICES
PROVIDER – FISCAL REVIEW**

Ms. Watanabe,

Attached please find Bienestar Human Services' response to the fiscal review conducted by your office on behalf of Division of HIV and STD Programs (DHSP) funded programs.

Per the letter emailed to us we will email, fax, and mail this response to your office today.

Should you have any questions regarding any of the responses, please contact me at 323-727-7896 x 122.

Sincerely,

Robert Contreras
Deputy Executive Director
Bienestar Human Services

ACCESS, EDUCATION, MOBILIZATION: OUR COMMUNITY'S SOLUTION!

BIENESTAR HUMAN SERVICES, INC.
HIV/AIDS CARE SERVICES MARCH 2010 TO JUNE 2012

ELIGIBILITY

Recommendation

1. BIENESTAR management obtain DPH approval of their client fee schedule.

Agency Response

1. BIENESTAR will submit a revised client fee schedule by 2/28/13.

CASH/REVENUE

Recommendations

BIENESTAR management:

2. Repay DPH \$2,370 for the unpaid expenditure.
3. Ensure bank reconciling items are resolved timely.
4. Ensure the bank reconciliations are signed by the preparer and the reviewer.
5. Ensure two authorized signatures are required on all checks.

Agency Response:

2. The vendor was paid using a credit card. The check is a duplicate pay and will be voided. Proceeds will be refunded to funders for whom charges were billed by February 28, 2013.
3. BIENESTAR has put into place a system to ensure that this policy is followed. Accounting staff will follow policy of Bank Reconciliations which states:

The Executive Director receives all bank and investment account mailings unopened. The Executive Director opens them, initials and dates the statements, makes a copy, and gives all statements to the Fiscal Director.

The duties of preparing and reviewing bank reconciliations are adequately separated from other cash handling functions. Cash is not handled by the Fiscal Director.

Bank accounts are reconciled on a monthly basis by the Fiscal Director using the MIP Bank Reconciliation Module (please see the MIP bank reconciliation

module manual for preparation details). The Fiscal Director reviews the statements for NSF checks, bank fees, interest earned, and other bank activity that has not been recorded in the MIP accounting system. The Fiscal Director enters these transactions into MIP via journal entry. The bank reconciliations are initialed and dated by the Fiscal Director.

After the bank reconciliation is complete, the Fiscal Director prints the bank reconciliation and forwards the statements and reconciliations to the Deputy Executive Director for review. The bank reconciliations are reviewed, initialed and dated by the Deputy Executive Director (DED). Checks outstanding for over 180 days are periodically investigated to determine the appropriateness of stop payment and re-issuance.

4. Same as number 3
5. BIENESTAR's policy is for vendor and manual payroll checks to have two signatures. BIENESTAR will ensure every check has two signatures. Accounting Clerk will verify all checks have two signatures before distribution.

3., 4., and 5. compliance effective February 1, 2013.

COST ALLOCATION PLAN

Recommendations

BIENESTAR management:

6. Repay DPH \$18,092 for unsupported allocations, or reallocate the shared costs based on an approved allocation methodology and repay DPH for any excess amounts charged to the DPH Programs.
7. Develop a written Cost Allocation Plan in compliance with the County contract and allocate shared costs based on actual expenditures and/or data.

Agency Response 6. and 7.: Bienestar does not agree with findings 6. and 7.

BIENESTAR developed a detailed, written cost allocation plan in compliance with the County contract which was approved by DHSP.

When DHSP receives a budget or budget modification from BIENESTAR for approval, as part of the DHSP process the cost allocation plan is requested as backup. The cost allocation plan methodology is written within the cost allocation plan and in the budget justification and/or budget modification justification submitted to DHSP for approval.

Please see approved DHSP budget modification and backup as evidence of the process DHSP uses when approving BIENESTAR's cost allocation plan.

Please see AICPA Not-for-Profit Entities Circular March 1, 2010 backup stating applicable guidelines.

One excerpt is as follows - code section 13.47: "A reasonable allocation of expenses among an NFP's functions may be made on a variety of bases."

A second excerpt is as follows - code section 13.49: "The expenses associated with occupying and maintaining a building, such as depreciation, utilities, maintenance, and insurance, may be allocated among the NFP's functions based on the square footage of space occupied by each program and supporting service. If floor plans are not available and the measurement of the occupied space is impractical, an estimate of the relative portion of the building occupied by each function may be made." The term "may be" is used instead of an absolute term such as "must be" or "required."

Square footage used is the cost allocation method for rent, utilities, and repairs & maintenance. Square footage used is the space used by the contract plus shared space used by the contract. Square footage used is derived using FTE's.

Employee FTEs by contract by employee service location is the method used to allocate telephone, office supplies, and printing.

The organization chose its allocation methods keeping in mind the need to minimize administrative costs and maximize service resources in meeting 100% of service requirements.

As per "CIRCULAR NO. A-122, Revised May 10, 2004, TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Cost Principles for Non-Profit Organizations

2. Supersession. This Circular supersedes cost principles issued by individual agencies for non-profit organizations."

GENERAL PRINCIPLES

Table of Contents

A. Basic Considerations

2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:

- a. Be reasonable for the performance of the award and be allocable thereto under these principles.
- b. Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.
- c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.
- d. Be accorded consistent treatment.
- e. Be determined in accordance with generally accepted accounting principles (GAAP).
- f. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
- g. Be adequately documented.

3. Reasonable costs. A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof which receive the preponderance of their support from awards

made by Federal agencies. In determining the reasonableness of a given cost, consideration shall be given to:

Further cost allocation method clarification

1) BIENESTAR cost allocates based on the actual FTE method, not the actual hours worked method or actual salaries and wages method.

2) All positions are occupied. Therefore, BIENESTAR is using actual FTE.

3) Amounts allocated and charged to contracts are actual costs.

4) BIENESTAR has adopted the direct allocation method listed in OMB A-122 for cost allocation purposes.

Excerpted from OMB A-122 Cost Principles for Non-Profit Organizations:

"D. Allocation of Indirect Costs and Determination of Indirect Cost Rates

4. Direct allocation method.

a. **Some non-profit organizations treat all costs as direct costs except general administration and general expenses. These organizations generally separate their costs into three basic categories: (i) General administration and general expenses, (ii) fundraising, and (iii) other direct functions (including projects performed under Federal awards). Joint costs, such as depreciation, rental costs, operation and maintenance of facilities, telephone expenses, and the like are prorated individually as direct costs to each category and to each award or other activity using a base most appropriate to the particular cost being prorated."**

Cited throughout OMB A-122 are examples of cost allocation methods which can be used. Under section D. Allocation of Indirect Costs and Determination of Indirect Cost Rates

3. Multiple allocation base method.

c. Allocation bases.

(1) (c) (i)-(ii) Three methods are cited: the employees and other users on a full-time equivalent (FTE) basis, organization-wide employee FTEs, or salaries and wages.

Costs charged to DHSP contracts for rent, telephone, utilities, repairs & maintenance, office supplies, and printing were reasonable, allowable, and appropriately allocated per OMB A-122.

BIENESTAR revises the cost allocation plan for the following reasons, including but not limited to:

1. New contract.
2. Permanently ended contract.
3. Approved budget and budget modifications.

There are timing differences. A budget/budget modification submitted for July December on June 1 may not be approved until November 30. The cost allocation plan would not be changed until approval occurs and is received.

Based on the information delineated above, the method used by BIENESTAR to allocate costs is allowable and supported per OMB A-122.

BIENESTAR has a written cost allocation plan that is in compliance with the County contract. The cost allocation plan allocates and charges shared costs based on actual expenditures. The written cost allocation plan is submitted to the County's DHSP office every time a budget or budget modification is submitted. When DHSP formally approves budgets and budget modifications, applicable cost allocation plans and methods are approved.

BIENESTAR has modified its current cost allocation plan per instructions from the Auditor-Controller's auditors and will submit the new cost allocation plan to DHSP for approval by 02/28/13. However, this change to BIENESTAR's cost allocation plan does not signify the plan/method previously used was inappropriate, not allowable, or not approved by the appropriate parties. It simply means BIENESTAR is adjusting its cost allocation plan to continuously improve and adjust to LA County Auditor-Controller's recommendations.

PAYROLL AND PERSONNEL

Recommendations

BIENESTAR management:

8. Ensure that only actual hours worked are charged to DPH Programs.
9. Ensure that payroll is accurately calculated.
10. Ensure that the timecards are signed by employees.

Agency Response:

BIENESTAR agrees with the recommendations and has already implemented systematic steps so this does not happen in the future. 8., 9., and 10. Effective previously and continuing February 1, 2013 and thereafter.